THE RETIREMENT GROUP LLC
PARTNERS IN RETIREMENT

Retirement/Transition Guide For Caterpillar Employees

Introduction

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In our comprehensive retirement guide for Caterpillar employees, we go through many factors which you may take into account when deciding on the proper time to retire from Caterpillar. Some of those factors include: healthcare & benefit changes, interest rates, the new 2024 tax rates, inflation, and much more. Keep in mind we are not affiliated with Caterpillar, and we recommend reaching out to your Caterpillar benefits department for further information.

Learn more by visiting:

www.theretirementgroup.com

Disclosure: The Retirement Group is not affiliated with CAT.

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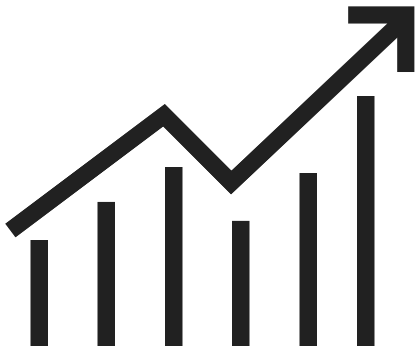
2024 Tax Changes & Inflation

It is imperative for individuals to be aware of new changes made by the IRS. The main factors that will impact employees will be the following:

- The 2024 standard deduction will increase to $14,600 for single filers and those married filing separately, $29,200 for joint filers, and $21,900 for heads of household.

- Taxpayers who are over the age of 65 or blind can add an additional $1,550 to their standard deduction. That amount jumps to $1,950 if also unmarried or not a surviving spouse.



Retirement account contributions: Contributing to your company's 401k plan can cut your tax bill significantly, and the amount you can save has increased for 2024. The amount individuals can contribute to their 401(k) plans in 2024 will increase to $23,000 -- up from $22,500 for 2023. The catch-up contribution limit for employees age 50 and over will increase to $7,500.

There are important changes for the Earned Income Tax Credit (EITC) that you, as a taxpayer employed by a corporation, should know:

- The tax year 2024 maximum Earned Income Tax Credit amount is $7,830 for qualifying taxpayers who have three or more qualifying children, up from $7,430 for tax year 2023.

- Married taxpayers filing separately can qualify: You can claim the EITC as married filing separately if you meet other qualifications. This was not available in previous years.

Deduction for cash charitable contributions: The special deduction that allowed single nonitemizers to deduct up to $300—and married filing jointly couples to deduct $600— in cash donations to qualifying charities has expired.

2024 Tax Changes & Inflation Cont...

Child Tax Credit changes:

- The maximum tax credit per qualifying child is $2,000 for children five and under – or $3,000 for children six through 17 years old. Additionally, you can't receive a portion of the credit in advance, as was the case in 2023.
- As a parent or guardian, you are eligible for the Child Tax Credit if your adjusted gross income is less than $200,000 when filing individually or less than $400,000 if you're filing a joint return with a spouse.
- A 70 percent, partial refundability affecting individuals whose tax bill falls below the credit amount.

2024 Tax Brackets

Rate	For Unmarried Individuals	For Married Individuals Filing Joint Returns	For Heads of Households	Married Filing Separately
10%	$0 to $11,600	$0 to $23,200	$0 to $16,550	$0 to $11,600
12%	$11,600 to $47,150	$23,200 to $94,300	$16,550 to $63,100	$11,600 to $47,150
22%	$47,150 to $100,525	$94,300 to $201,050	$63,100 to $100,500	$47,150 to $100,525
24%	$100,525 to $191,950	$201,050 to $383,900	$100,500 to $191,950	$100,525 to $191,950
32%	$191,950 to $243,725	$383,900 to $487,450	$191,950 to $243,700	$191,950 to $243,725
35%	$243,725 to $609,350	$487,450 to $731,200	$243,700 to $609,350	$243,726 to $365,600
37%	$609,350 or more	$731,200 or more	$609,350 or more	$365,601 or more
		Standard Deductions		
	$14,600	$29,200	$21,900	$14,600

Inflation reduces purchasing power over time as the same basket of goods will cost more as prices rise. In order to maintain the same standard of living throughout your retirement after leaving your company, you will have to factor rising costs into your plan. While the Federal Reserve strives to achieve a 2% inflation rate each year, in 2023 that rate shot up to 4.9% which was a drastic increase from 2020's 1.4%. While prices as a whole have risen dramatically, there are specific areas to pay attention to if you are nearing or in retirement from your company, like healthcare.

It is crucial to take all of these factors into consideration when constructing your holistic plan for retirement from your company.

*Source: IRS.gov, Yahoo, Bankrate, Forbes

Planning Your Retirement

Retirement planning is a verb; consistent action must be taken whether you're 20 or 60.

The truth is that most Americans don't know how much to save or the amount of income they'll need.

No matter where you stand in the planning process, or your current age, we hope this guide provides you a good overview of the steps to take and resources that help you simplify your transition from your company into retirement and get the most from your benefits.

You know you need to be saving and investing, especially since time is on your side the sooner you start, but you don't have the time or expertise to know if you're building retirement savings that can last after leaving your company.

Starting to save as early as possible matters. Time on your side means compounding can have significant impacts on your future savings. And, once you've started, continuing to increase and maximize your contributions for your 401(k) plan is key.

"A separate study by Russell Investments, a large money management firm, came to a similar conclusion. Russell estimates a good financial advisor can increase investor returns by 3.75 percent."

Looking for a second opinion, click here to speak to a Financial advisor today!

Click Here

Planning Your Retirement Cont...

There's a 79% potential boost in wealth at age 65 over a 20-year period when choosing to invest in your company's retirement plan.

*Source: Bridging the Gap Between 401(k) Sponsors and Participants, T.Rowe Price, 2020

As decades go by, you're likely full swing into your career at your company and your income probably reflects that. However, the challenges of saving for retirement start coming from large competing expenses: a mortgage, raising children, and saving for their college.

One of the classic planning conflicts is saving for retirement versus saving for college. Most financial planners will tell you that retirement from your company should be your top priority because your child can usually find support from financial aid while you'll be on your own to fund your retirement.

How much we recommend that you invest towards your retirement is always based on your unique financial situation and goals. However, consider investing a minimum of 10% of your salary toward retirement through your 30s and 40s.

As you enter your 50s and 60s, you're ideally at your peak earning years with some of your major expenses, such as a mortgage or child-rearing, behind you or soon to be in the rearview mirror. This can be a good time to consider whether you have the abilityto boost your retirement savings goal to 20% or more of your income. For many people, this could potentially be the last opportunity to stash away funds.

In 2024, workers age 50 or older can invest up to $23,000 into their retirement plan/401(k), and once they meet this limit, they can add an additional $7,500 in catch-up contributions for a combined annual total of $30,500. These limits are adjusted annually forinflation.

Why are 401(k)s and matching contributions so popular?

These retirement savings vehicles give you the chance to take advantage of three main benefits:

- Compound growth opportunities (as seen above)
- Tax saving opportunities
- Matching contributions

Matching contributions are just what they sound like: your company matches your own 401(k) contributions with money that comes from the company. If your company matches, the company money typically matches up to a certain percent of the amount that you put in.

Unfortunately, many people fail to take advantage of their company's matching contributions because they're not contributing the required minimum to receive the full company match.

Planning Your Retirement Cont...

Research published in 2022 by Principal Financial Group identified that 62% of workers deemed company 401(k) matches significantly important to reaching their retirement goals.

According to Bank of America's "2022 Financial Life Benefit Impact Report", despite 58% of eligible employees participating in a 401(k) plan, 61% of them contributed less than $5,000 during the current year.

The study also found that fewer than one in 10 participants' contributions reached the ceiling on elective deferrals, under IRS Section 402(g) — which is $23,000 for 2024.

A 2020 study from Financial Engines titled "Missing Out: How Much Employer 401(k) Matching Contributions Do Employees Leave on the Table?", revealed that employees who don't maximize their company match typically leaves $1,336 of extra retirement money on the table each year.

For example, if your company will match up to 3% of your plan contributions and you only contribute 2% of your salary, you aren't getting the full amount of the company match. By simply increasing your contribution by just 1%, your company is now matching the full 3% of your contributions for a total combined contribution of 6%. By doing so, you aren't leaving money on the table.

Schedule a Call

Your Pension Plan

Whether you're changing jobs or retiring from CAT, knowing what to do with your hard-earned retirement savings can be difficult. An employer-sponsored plan, such as a Pension & 401(k), may make up the majority of your CAT retirement savings, but how much do you really know about that plan and how it works? There are seemingly endless rules that vary from one retirement plan to the next, early out offers, interest rate impacts, age penalties, & complex tax impacts.

Increasing your investment balance and reducing taxes is the key to a successful retirement plan spending strategy. Our advisors at The Retirement Group can help you understand how your retirement 401(k) fits into your overall financial picture and how to make that plan work for you.

"Workers are far more likely to rely on their workplace defined contribution (DC) retirement plans as a source of income. 8 in 10 believe this will be a major or minor source of income in retirement. 3 in 4 expect income to come from their personal retirement savings or investments."
- Employee Benefit Research Institute

As of March 2019, 71% of full-time private-sector American workers had access to an employer retirement plan, but only 56% chose to participate. Regardless of what you choose to do with the funds from your employer retirement plan, you're already ahead of 44% of all workers.(1)

Your Pension Plan - Overview

Pension Plan Eligibility

When leaving the company with a vested benefit under the Traditional Plan, you must understand how your age and the time you separate from service will impact the timing and type of your benefit.

If you are a PEP participant with a vested benefit, you are eligible to receive your pension any time after you leave the company.

Type of Retirement	Age, Vesting Service or Participation Requirements
Normal Retirement	Age 65 with 5 years of Plan participation or with 3 years of Vesting Service
Early Retirement	Any age with 30 years of Vesting Service
	Age 55 with the following service requirements: • to qualify under the Final Earnings Formula, with 15 or more years of Vesting Service • to qualify under the Credited Service Formula, with age plus Vesting Service equal to 85 or more
	Age 60 with 10 years of Vesting Service
Deferred Vested Retirement	At least 3 years of Vesting Service but terminating employment before meeting any combination of age and service criteria above

Early Retirement Special Note:
If you elect early retirement after meeting one of the age and service requirements listed above, your pension under the Final Earnings Formula will be reduced 4% for each year (or 1/3% each month) that payments start before age 62.

Your Pension Plan - Calculations

Pension Plan Calculation

Final Average Monthly Earnings (FAME)

Your Final Average Monthly Earnings is the average of the highest five years of earnings out of your last ten years with the company as an eligible employee and a participant in the plan. The “years” used in the calculation end with the last 12 months before you retire or otherwise terminate employment and work backwards in 12-month increments from the date that you retire or otherwise terminate employment.

Final Earnings Formula

The Final Earnings Formula produces a lifetime monthly pension equal to the excess of a percentage (generally 1.5%) of your Final Average Monthly Earnings multiplied by your Years of Service as an Eligible Employee and a Participant in the plan (up to 35 years) over your Credited Service Formula benefit.

Credited Service Formula

The Credited Service Formula produces a lifetime monthly pension, payable at your Normal Retirement Date, equal to your Credited Service earned while an eligible full-time employee and a participant in the plan, multiplied by the basic pension rate and supplemental pension rate:

- The basic pension rate is $43.35 if you retire on or after January 1, 2010. The basic pension rate may be adjusted by the Company from time to time.
- The supplemental pension rate is determined by a table listed within your SPD, and based on the class in which you were a member for the longest period of time within the 2-year period ending with your retirement or termination date.

Your Pension Plan - Calculations

Example: The following is an example of how the Credited Service Formula and Final Earnings Formula combined to determine your Traditional benefit.

Credit Service Formula			Final Earnings Formula	
Credited Service as a Full-Time Employee		36.0000	Years of Credited Service	35.0000
Pension Rate:				*times*
Basic Rate	43.35	*times*	Final Average Monthly Earnings	$4,000.00
Supplemental Rate	7.00			*times*
Total Pension Rate		50.35	Final Earnings Percentage	1.50%
Credited Service Formula calculation		$1,812.60	Final Earnings Formula calculation	$2,100.00
Traditional Benefits Payable				
Credited Service Benefit				$1,812.60
Final Earnings Benefit (FE Formula amount in excess of CS Formula amount)				287.40
Total Traditional Benefit payable per month at age 65				$2,100.00

Example #2

CAT Pension example (Final Average Monthly Earnings formula)
(Average of 5 best in past 10 years of income)

Age 60 with 25 years of service: Average monthly earnings - $9,500 (Average of 5 best in past 10 years of income)

$9,500 X **1.5%** X **25** = **$3,562.50**

Reduction for age penalties(4% per year, prior to age 62) = 8% reduction
Monthly benefit at age 60 = $3,562(less 8%) = $3,277.50 a month CAT

Example #3

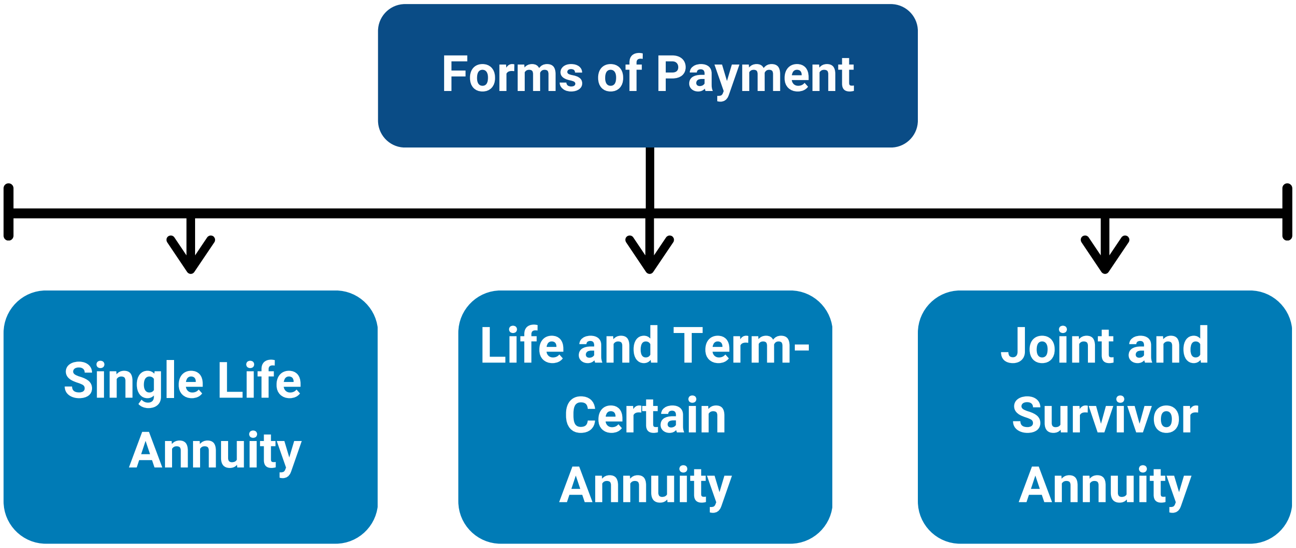
Pension example (Final Average Monthly Earnings formula)
(Average of 5 best in past 10 years of income)

Age 62 with 32 years of service: Average monthly earnings - $11,000 (Average of 5 best in past 10 years of income)

$11,000 X **1.5%** X **32** = **$5,280**

Note: No reduction for age penalties

Your Pension Plan- Distribution Options



How Benefits Are Paid

You have several options for payment of your plan benefit. Your payment election will determine how long and to whom your benefit is paid, as well as the amount of each payment. The value of your benefit under all options is actuarially equivalent to the amount determined by the plan formula. However, the payment amounts will vary to reflect the differing streams of payment under each option. Your election of payment form becomes irrevocable on your selected benefit commencement date.

Distribution Options:

- Single Life Annuity
- Qualified Joint & 50% Survivor Annuity
- Qualified Joint & 55% Survivor Annuity
- Contingent Annuitant Option
- Ten Years Certain Option

Lump-Sum vs. Annuity

Retirees who are eligible for a pension are often offered the choice of receiving their pension payments for life, or receive a lump-sum amount all-at-once. The lump sum is the equivalent present value of the monthly pension income stream – with the idea that you could then take the money (rolling it over to an IRA), invest it, and generate your own cash flow by taking systematic withdrawals throughout your retirement years.

The upside of electing the monthly pension is that the payments are guaranteed to continue for life (at least to the extent that the pension plan itself remains in place and solvent and doesn't default). Thus, whether you live 10, 20, 30, or more years after retiring from your company, you don't have to worry about the risk of outliving the monthly pension.

The major downside of the monthly pension are the early and untimely passing of the retiree and joint annuitant. This often translates into a reduction in the benefit or the pension ending altogether upon the passing. The other downside, it that, unlike Social Security, company pensions rarely contain a COLA (Cost of Living Allowance). As a result, with the dollar amount of monthly pension remaining the same throughout retirement, it will lose purchasing power when the rate of inflation increases.

In contrast, selecting the lump-sum gives you the potential to invest, earn more growth, and potentially generate even greater retirement cash flow. Additionally, if something happens to you, any unused account balance will be available to a surviving spouse or heirs. However, if you fail to invest the funds for sufficient growth, there's a danger that the money could run out altogether and you may regret not having held onto the pension's "income for life" guarantee.

Lump-Sum vs. Annuity Cont..

Ultimately, the “risk” assessment that should be done to determine whether or not you should take the lump sum or the guaranteed lifetime payments that your company pension offers, depends on what kind of return must be generated on that lump-sum to replicate the payments of the annuity. After all, if it would only take a return of 1% to 2% on that lump-sum to create the same monthly pension cash flow stream, there is less risk that you will outlive the lump-sum. However, if the pension payments can only be replaced with a higher and much riskier rate of return, there is, in turn, a greater risk those returns won’t manifest and you could run out of money.

Interest Rates and Life Expectancy

Current interest rates, as well as your life expectancy at retirement, have a significant impact on lump sum payouts of defined benefit pension plans.

Rising interest rates have an inverse relationship to pension lump sum values. The reverse is also true; decreasing or lower interest rates will increase pension lump sum values. Interest rates are important for determining your lump sum option within the pension plan.

The Retirement Group believes all employees should obtain a detailed RetireKit Cash Flow Analysis comparing their lump sum value versus the monthly annuity distribution options, before making their pension elections.

As enticing as a lump sum may be, the monthly annuity for all or a portion of the pension, may still be an attractive option, especially in a high interest rate environment.

Each person’s situation is different, and a complimentary Cash Flow Analysis, from The Retirement Group, will show you how your pension choices stack up and play out over the course of your retirement years which may be two, three, four or more decades in retirement.

By knowing where you stand, you can make a more prudent decision regarding the optimal time to retire, and which pension distribution option meets your needs the best.

401(k) Savings Plan
Employees are encouraged to enroll in a 401(k) savings plan right away. Caterpillar offers a 401(k) Plan that allows you to save for retirement through pretax or Roth after-tax contributions, company matching contributions and an annual employer contribution.

You may invest on a before-tax and/or an after-tax basis (regular or Roth) and choose out of seven investment options, with varying degrees of risk. You can also roll over pre-tax and Roth amounts from other eligible plans.

The Caterpillar offers a 401(k) Plan that allows you to save for retirement through pretax or Roth after-tax contributions, company matching contributions and an annual employer contribution.

Enrollment is Automatic

You can enroll in the 401(k) Plan usually within 7 – 10 days from your date of hire.

To encourage you to save for retirement, Caterpillar will automatically enroll you in the 401(k) Plan within 30 days of your hire date.

They will automatically deduct 6% of your base pay and 6% of your incentive pay on a pretax basis. Your funds will be invested in the Target Retirement Fund nearest to your 65th birthday. In addition, automatic increases of 1% each year, until participant reaches a 15% contribution level, will automatically take place.

Note:
If you would like to make a different election or opt out of these automatic elections, call the Caterpillar Benefits Center.

Vesting

As a participant, you vest in the company match after three years of vesting service.

Next Steps:

- Watch for your Participant Distribution Notice and Special Tax Notice Regarding Plan Payments. These notices will help explain your options and what the federal tax implications may be for your vested account balance.
- "*What has Worked in Investing*" & "*8 Tenets when picking a Mutual Fund*".
- To learn about your distribution options, call The Retirement Group at (800)-900-5867. Click our e-book for more information on "*Rollover Strategies for 401(k)s*".
- If you voluntarily terminate your employment from Caterpillar, you will not be eligible to receive the annual contribution.

401(k) Plan Highlights

The following chart provides a quick summary of the Caterpillar 401(k) Plan. See the Summary Plan Description for additional information.

Plan Feature	Benefit
Eligibility	You must be: • A full-time employee who is at least age 18 — eligible upon hire • A part-time employee who is at least age 18 — eligible after a year of service
Your Contributions	**Regular Contributions** You may contribute between **1-70%** of your eligible compensation on a **pretax or Roth after-tax basis** (after subtracting all voluntary and mandatory deductions and withholdings) up to the 2021 IRS annual limit of $19,500. **Catch-up Contributions** If you're age 50 or older, you may contribute up to **$6,500** in addition to the regular contributions described above; there is no company match on catch-up contributions.
Employer Matching Contributions	Caterpillar will match **100% of your contributions, up to 6% of eligible compensation.**
Annual Employer Contribution	Caterpillar will make a contribution to your account each year, regardless of whether you contribute to the plan. The amount ranges from **3 – 5%** of eligible compensation and depends on your age and years of service. See the Summary Plan Description for eligibility requirements.
Vesting	• You're always 100% vested in your own contributions, rollover contributions and the company matching contributions. • You're 100% vested in the annual employer contribution after 3 years of service.

Over half of plan participants admit they don't have the time, interest or knowledge needed to manage their 401(k) portfolio. But the benefits of getting help goes beyond convenience. Studies like this one, from Charles Schwab, show those plan participants who get help with their investments tend to have portfolios that perform better: The annual performance gap between those who get help and those who do not is 3.32% net of fees. This means a 45-year-old participant could see a 79% boost in wealth by age 65 simply by contacting an advisor. That's a pretty big difference.

Getting help can be the key to better results across the 401(k) board.
A Charles Schwab study found several positive outcomes common to those using independent professional advice. They include:

- **Improved savings rates** – 70% of participants who used 401(k) advice increased their contributions.
- **Increased diversification** – Participants who managed their own portfolios invested in an average of just under four asset classes, while participants in advice-based portfolios invested in a minimum of eight asset classes.
- **Increased likelihood of staying the course** – Getting advice increased the chances of participants staying true to their investment objectives, making them less reactive during volatile market conditions and more likely to remain in their original 401(k) investments during a downturn. Don't try to do it alone. Get help with your company's 401(k) plan investments. Your nest egg will thank you.

In-Service Withdrawals

- Generally speaking, you can withdraw amounts from your account while still employed with your company under the circumstances described below.
- It's important to know that certain withdrawals are subject to regular federal income tax and, if you're under age 59½, you may also be subject to an additional 10% penalty tax. You can determine if you're eligible for a withdrawal, and request one, online or by calling your company's Benefits Center.

For more information on rollover strategies, read our ebook

"Rollover Strategies for 401(k)s"

Source: 26

Rolling Over Your 401(k)

As long as the plan participant is younger than age 72, an in-service distribution can be rolled over to an IRA. A direct rollover would avoid the 10% early withdrawal penalty as well as the mandatory 20% tax withholding. Your company's plan summary outlines more information and possible restrictions on rollovers and withdrawals.

Because a withdrawal permanently reduces your retirement savings and is subject to tax, you should always consider taking a loan from the plan instead of a withdrawal to meet your financial needs. Unlike withdrawals, loans must be repaid, and are not taxable (unless you fail to repay them). In some cases, as with hardship withdrawals, you are not allowed to make a withdrawal unless you have also taken out the maximum loan available within the company plan.

You should also know that your company's plan administrator reserves the right to modify the rules regarding withdrawals at any time, and may further restrict or limit the availability of withdrawals for administrative or other reasons. All plan participants will be advised of any such restrictions, and they apply equally to all corporate employees.

Borrowing from your 401(k)

Should you? Maybe you lose your job with your company, have a serious health emergency, or face some other reason that you need a lot of cash. Banks make you jump through too many hoops for a personal loan, credit cards charge too much interest, and … suddenly, you start looking at your 401(k) account and doing some quick calculations about pushing your retirement from your company off a few years to make up for taking some money out.

We understand how you feel: It’s your money, and you need it now. But, take a second to see how this could adversely affect your retirement plans after leaving your company.

Consider these facts when deciding if you should borrow from your 401(k). You could:

- Lose growth potential on the money you borrowed.
- Deal with repayment and tax issues if you leave your company.
- Repayment and tax issues, if you leave your company.

Net Unrealized Appreciation (NUA)

When you qualify for a distribution, you have three options:

- Roll-over your qualified plan to an IRA and continue deferring taxes.
- Take a distribution and pay ordinary income tax on the full amount.
- Take advantage of NUA and reap the benefits of a more favorable tax structure on gains.

How does Net Unrealized Appreciation work?

First an employee must be eligible for a distribution from their qualified company-sponsored plan. Generally, at retirement or age 59 ½, the employee takes a 'lump-sum' distribution from the plan, distributing all assets from the plan during a 1-year period. The portion of the plan that is made up of mutual funds and other investments can be rolled into an IRA for further tax deferral. The highly appreciated company stock is then transferred to a non-retirement account.

The tax benefit comes when you transfer the company stock from a tax-deferred account to a taxable account. At this time, you apply NUA and you incur an ordinary income tax liability on only the cost basis of your stock. The appreciated value of the stock above its basis is not taxed at the higher ordinary income tax but at the lower long-term capital gains rate, currently 15%. This could mean a potential savings of over 30%.
You may be interested in learning more about NUA with a complimentary one-on-one session with a financial advisor from The Retirement Group.

IRA Withdrawal

When you qualify for a distribution, you have three options: Your retirement assets may consist of several retirement accounts: IRAs, 401(k)s, taxable accounts, and others.

So, what is the most efficient way to take your retirement income after leaving your company?

You may want to consider meeting your income needs in retirement by first drawing down taxable accounts rather than tax-deferred accounts.

This may help your retirement assets with your company last longer as they continue to potentially grow tax deferred.

You will also need to plan to take the required minimum distributions (RMDs) from any company-sponsored retirement plans and traditional or rollover IRA accounts.

That is due to IRS requirements for 2024 to begin taking distributions from these types of accounts when you reach age 73. Beginning in 2024, the excise tax for every dollar of your RMD under-distributed is reduced from 50% to 25%.

There is new legislation that allows account owners to delay taking their first RMD until April 1 following the later of the calendar year they reach age 73 or, in a workplace retirement plan, retire.

Two flexible distribution options for your IRA

When you need to draw on your IRA for income or take your RMDs, you have a few choices. Regardless of what you choose, IRA distributions are subject to income taxes and may be subject to penalties and other conditions if you're under 59½.

Partial withdrawals: Withdraw any amount from your IRA at any time. If you're 73 or over, you'll have to take at least enough from one or more IRAs to meet your annual RMD.

Systematic withdrawal plans: Structure regular, automatic withdrawals from your IRA by choosing the amount and frequency to meet your income needs after retiring from your company. If you're under 59½, you may be subject to a 10% early withdrawal penalty (unless your withdrawal plan meets Code Section 72(t) rules).

Your tax advisor can help you understand distribution options, determine RMD requirements, calculate RMDs, and set up a systematic withdrawal plan.

Overview

Caterpillar allows you to stretch your hard-earned dollars by reducing your out-of-pocket costs for eligible health and dependent care expenses through our flexible spending accounts (FSA) and parking and transit expenses through our commuter account. Tax-savings accounts allow you to set aside money through pretax payroll deductions to pay for certain eligible expenses. The money isn't taxed when it goes into the FSA or commuter account, and the reimbursement isn't taxed when it comes back to you. So, you're able to pay for eligible expenses with **tax-free dollars**. Caterpillar offers you three types of accounts:

- Health Care FSA (two types: general purpose and limited purpose)
- Dependent Care FSA
- Commuter Account

HSA's

Health Savings Accounts (HSAs) are often celebrated for their utility in managing healthcare expenses, particularly for those with high-deductible health plans. However, their benefits extend beyond medical cost management, positioning HSAs as a potentially superior retirement savings vehicle compared to traditional retirement plans like 401(k)s, especially after employer matching contributions are maxed out.

Understanding HSAs

HSAs are tax-advantaged accounts designed for individuals with high-deductible health insurance plans. For 2024, the IRS defines high-deductible plans as those with a minimum deductible of $1,600 for individuals and $3,200 for families. HSAs allow pre-tax contributions, tax-free growth of investments, and tax-free withdrawals for qualified medical expenses—making them a triple-tax-advantaged account.

The annual contribution limits for HSAs in 2024 are $4,150 for individuals and $8,300 for families, with an additional $1,000 allowed for those aged 55 and older. Unlike Flexible Spending Accounts (FSAs), HSA funds do not expire at the end of the year; they accumulate and can be carried over indefinitely.

Your Benefits- HSA’s Cont...

Comparing HSAs to 401(k)s Post-Matching

Once an employer's maximum match in a 401(k) is reached, further contributions yield diminished immediate financial benefits. This is where HSAs can become a strategic complement. While 401(k)s offer tax-deferred growth and tax-deductible contributions, their withdrawals are taxable. HSAs, in contrast, provide tax-free withdrawals for medical expenses, which are a significant portion of retirement costs.

HSA as a Retirement Tool

Post age 65, the HSA flexes its muscles as a robust retirement tool. Funds can be withdrawn for any purpose, subject only to regular income tax if used for non-medical expenses. This flexibility is akin to that of traditional retirement accounts, but with the added advantage of tax-free withdrawals for medical costs—a significant benefit given the rising healthcare expenses in retirement.

Furthermore, HSAs do not have Required Minimum Distributions (RMDs), unlike 401(k)s and Traditional IRAs, offering more control over tax planning in retirement. This makes HSAs particularly advantageous for those who might not need to tap into their savings immediately at retirement or who want to minimize their taxable income.

Investment Strategy for HSAs

Initially, it's prudent to invest conservatively within an HSA, focusing on ensuring that there are sufficient liquid funds to cover near-term deductible and other out-of-pocket medical expenses. However, once a financial cushion is established, treating the HSA like a retirement account by investing in a diversified mix of stocks and bonds can significantly enhance the account's growth potential over the long term.

Utilizing HSAs in Retirement

In retirement, HSAs can cover a range of expenses:

- Healthcare Costs-Pre Medicare: HSA's Can pay for healthcare costs to bridge you to Medicare
- Healthcare Costs-Post Medicare: HSAs can pay for Medicare premiums and out-of-pocket medical costs, including dental and vision, which are often not covered by Medicare.
- Long-term Care: Funds can be used for qualified long-term care services and insurance premiums.
- Non-medical Expenses: After age 65, HSA funds can be used for non-medical expenses without incurring penalties, although these withdrawals are subject to income tax.

Conclusion

In summary, HSAs offer unique advantages that can make them a superior option for retirement savings, particularly after the benefits of 401(k) matching are maximized. Their flexibility in fund usage, coupled with tax advantages, makes HSAs an essential component of a comprehensive retirement strategy. By strategically managing contributions and withdrawals, individuals can maximize their financial health in retirement, keeping both their medical and financial well-being secure.

Health Care FSA and Dependent Care FSA

The Health Care and Dependent Care FSAs provide you with several options for using your funds:

1. **Debit card.** If you enroll in an FSA, you'll automatically receive a debit card that allows you to electronically access your health care and/or dependent care account to pay for eligible expenses. For health care, you can spend up to your annual contribution election even if you haven't yet contributed that amount through payroll deduction. For dependent care, you must have contributed enough funds to your account to cover the expense.

2. **Claim form.** Pay out of pocket and then submit (through mail, fax, email, online or send a photo with your mobile device) your completed FSA claim form along with an itemized receipt or Explanation of Benefits (not a credit card receipt) to receive reimbursement from your account by direct deposit or manual check — you decide. Contact UHC if you need assistance with setting up your reimbursement selection.
3. **Automatic.** Some medical, dental and prescription drug claims will automatically roll to your FSA for payment. You can disable this feature if you prefer to use your FSA debit card instead. Contact UHC for assistance.

Set Up Direct Deposit

You can have your FSA reimbursements deposited automatically into your bank account. Visit myuhc.com or call UnitedHealthcare for details.

Commuter Account

You can use your commuter account funds in four easy ways:

1. Get monthly transit passes or tickets delivered to your home. If you order through HealthEquity, they will mail passes or tickets to you each month.
2. Order a HealthEquity Commuter Card. Use this debit card to pay for eligible expenses yourself.
3. Ask HealthEquity to pay your parking provider directly. This option works well if you have a recurring monthly expense, like a monthly parking space or permit.
4. Submit a claim. Pay out of pocket and then submit (through mail, email, fax, online or through the EZ Receipts mobile app) your receipt and claim form.

Debit Card Details

- If you enroll in an FSA, you'll receive two debit cards — one for you and one for any eligible dependents. Sign the back of your card and ask your eligible dependent to do the same.
- Need more cards? Call UHC [link to contacts].
- Destroy any cards you don't plan to use.
- Use your debit card wherever Mastercard is accepted.
- Choose "credit" when paying to avoid having to enter a PIN. If you prefer to use it as a debit card, call UHC to obtain a PIN.
- Keep your receipts in case UHC requests them.

Special Rules for an FSA

The IRS has certain rules and guidelines for the funds in your FSA, such as:

Rule	Description
You must incur expenses during the calendar year	You must use the money deposited in your account for expenses incurred during the same calendar year. Expenses are incurred when services are rendered, not when they are billed or paid. Withdrawals can only be made for qualified expenses.
You can't transfer money between accounts	The three FSAs must be treated separately. You cannot transfer funds between your Dependent Care FSA and your general purpose Health Care FSA or limited purpose Health Care FSA. You cannot use the accounts interchangeably.
You can't "double dip" the tax savings	If you use an FSA for an expense, you cannot take a tax deduction or claim a tax credit for the same expense.
You can only make mid-year contribution changes within 31 days of a qualifying life event	**General rules:** Once you have elected an amount for the year, you cannot change your contributions unless you experience a qualified life event. The Caterpillar Benefits Center must be notified within 31 days of the life event. A change in contributions must be consistent with the qualifying life event. An increase in FSA contributions can only be used for expenses incurred on or after the qualifying life event. **Special rules**: See "Special Rules During the Pandemic" for details.

Beneficiary Designations

As part of your retirement planning and estate planning, it's important to name someone to receive the proceeds of your benefit programs in the event of your death. That's how your company will know whom to send your final compensation and benefits. This can include life insurance payouts and any pension or savings balances you may have.

Next Step:

- When you retire, make sure that you update your beneficiaries, and update the Beneficiary Designation form for life events such as death, marriage, divorce, childbirth, adoptions, etc.

Schedule a Call

Social Security & Medicare

For many retirees, understanding and claiming Social Security can be difficult but identifying optimal ways to claim Social Security is essential to your retirement income planning. Social Security benefits are not designed to be the sole source of your retirement income, but a part of your overall withdrawal strategy.

Knowing the foundation of Social Security, and using this knowledge to your advantage, can help you claim your maximum benefit.

It’s your responsibility to enroll in Medicare parts A and B when you first become eligible — and you must stay enrolled to have coverage for Medicare-eligible expenses. This applies to your Medicare eligible dependents as well.

You should know how your retiree medical plan choices or Medicare eligibility impacts your plan options. Before you retire from your company, contact the U.S. Social Security Administration directly at 800-772-1213, call your local Social Security Office or visit ssa.gov.

They can help determine your eligibility, get you and/or your eligible dependents enrolled in Medicare or provide you with other government program information. For more in-depth information on Social Security, please call us.

Year of birth	Full retirement age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960+	67

Check the status of your Social Security benefits before you retire from your company. Contact the U.S. Social Security Administration, your local Social Security office, or visit ssa.gov.

Are you eligible for Medicare or will be soon?

If you or your dependents are eligible after you leave your telecom industry company, Medicare generally becomes the primary coverage for you or any of your dependents as soon as they are eligible for Medicare. This will affect company-provided medical benefits.

You and your Medicare-eligible dependents must enroll in Medicare Parts A and B when you first become eligible. Medical and MH/SA benefits payable under the company's-sponsored plan will be reduced by the amounts Medicare Parts A and B would have paid whether you actually enroll in them or not.
For details on coordination of benefits, refer to your company's summary plan description.

If you or your eligible dependent don't enroll in Medicare Parts A and B, your provider can bill you for the amounts that are not paid by Medicare or your company-specific medical plan … making your out-of-pocket expenses significantly higher.

Projected annual Medicare costs for an individual: Part B and Part D premiums

Year	Age	Part B	Part D	Annual B+D
2030	75	$3,328	$1,636	$4,874
2020	65	$1,725	$871	$2,596
2040	85	$6,078	$3,070	$9,148

According to the Employee Benefit Research Institute (EBRI), Medicare will only cover about 60% of an individual's medical expenses. This means a 65-year-old couple, with average prescription-drug expenses for their age, will need $259,000 in savings to have a 90% chance of covering their healthcare expenses. A single male will need $124,000 and a single female, thanks to her longer life expectancy, will need $140,000.

Check your company's plan summary to see if you're eligible to enroll in Medicare Parts A and B.

How we can help:	Time to retirement: Several years	Time to retirement: 2 years or less	Time to retirement: In retirement
Familiarize you with individual healthcare plans	●	●	●
Estimate your healthcare costs in retirement	●	●	●
Design an overall retirement plan for you	●	●	●
Incorporate healthcare costs into your plan	●	●	●
Manage your plan to help you achieve your goals	●	●	●
Explain the basics of Medicare		●	●
Familiarize you with the Medicare enrollment process			●
Help you avoid coverage delays and possible penalties			●

If you become Medicare-eligible for reasons other than age, you must contact your company's benefit center about your status.

Divorce

The ideas of happily ever after and until death do us part won't happen for 28% of couples over the age of 53. Most couples saved together for decades, assuming they would retire together. After a divorce, they face the expenses of a pre-or post-retirement life, but with half their savings.

If you're divorced or in the process of divorcing, your former spouse(s) may have an interest in a portion of your retirement benefits from your company. Before you can start your pension — and for each former spouse who may have an interest — you'll need to provide your company with the following documentation:

- A copy of the court-filed Judgment of Dissolution or Judgment of Divorce along with any Marital Settlement Agreement (MSA)
- A copy of the court-filed Qualified Domestic Relations Order (QDRO)

Provide your company with any requested documentation to avoid having your pension benefit delayed or suspended. To find out more information on strategies if divorce is affecting your company's retirement benefits, please give us a call.

You'll need to submit this documentation to your company's online pension center regardless of how old the divorce or how short the marriage. *Source: The Retirement Group, "Retirement Plans - Benefits and Savings," U.S. Department of Labor, 2019; "Generating Income That Will Last Throughout Retirement," Fidelity, 2019

Social Security and Divorce

You can apply for a divorced spouse's benefit if the following criteria are met:

You're at least 62 years of age.
You were married for at least 10 years prior to the divorce.
You are currently unmarried.
Your ex-spouse is entitled to Social Security benefits.

Your own Social Security benefit amount is less than your spousal benefit amount, which is equal to one-half of what your ex's full benefit amount would be if claimed at Full Retirement Age (FRA).

Divorce Cont...

Unlike with a married couple, your ex-spouse doesn't have to have filed for Social Security before you can apply for your divorced spouse's benefit, but this only applies if you've been divorced for at least two years and your ex is at least 62 years of age. If the divorce was less than two years ago, your ex must already be receiving benefits before you can file as a divorced spouse.

Divorce doesn't disqualify you from survivor benefits. You can claim a divorced spouse's survivor benefit if the following are true:

- Your ex-spouse is deceased.
- You are at least 60 years of age.
- You were married for at least 10 years prior to the divorce.
- You are single (or you remarried after age 60).

In the process of divorcing?

If your divorce isn't final before your retirement date from your company, you're still considered married. You have two options:

- Retire from your company before your divorce is final and elect a joint pension of at least 50% with your spouse — or get your spouse's signed, notarized consent to a different election or lump sum.
- Delay your retirement from your company until after your divorce is final and you can provide the required divorce documentation.*

Source: The Retirement Group, "Retirement Plans - Benefits and Savings," U.S. Department of Labor, 2019; "Generating Income That Will Last Throughout Retirement," Fidelity, 2019

Survivor Checklist

In the unfortunate event that you aren't able to collect your benefits from your company, your survivor will be responsible for taking action.

What your survivor needs to do:

- Report your death. Your spouse, a family member or even a friend should call your company's benefits service center as soon as possible to report your death.
- Collect life insurance benefits. Your spouse, or other named beneficiary, will need to call your company's benefits service center to collect life insurance benefits.

- **If you have a joint pension:**

- Start the joint pension payments. The joint pension is not automatic. Your joint pensioner will need to complete and return the paperwork from your company's pension center to start receiving joint pension payments.
- Be prepared financially to cover living expenses. Your spouse will need to be prepared with enough savings to bridge at least one month between the end of your pension payments from your company and the beginning of his or her own pension payments.

If your survivor has medical coverage through your company:

- Decide whether to keep medical coverage.
- If your survivor is enrolled as a dependent in your company-sponsored retiree medical coverage when you die, he or she needs to decide whether to keep it. Survivors have to pay the full monthly premium.

Life After Your Career

While you may be ready for some rest and relaxation, without the stress and schedule of your full-time career with your company, it may make sense to you financially, and emotionally, to continue to work.

Financial benefits of working

Make up for decreased value of savings or investments. Low interest rates make it great for lump sums but harder for generating portfolio income. Some people continue to work to make up for poor performance of their savings and investments.

Maybe you took an offer from your company and left earlier than you wanted with less retirement savings than you needed. Instead of drawing down savings, you may decide to work a little longer to pay for extras you've always denied yourself in the past.

Meet financial requirements of day-to-day living. Expenses can increase during your retirement from your company and working can be a logical and effective solution. You might choose to continue working in order to keep your insurance or other benefits — many employers offer free to low cost health insurance for part-time workers.

Emotional benefits of working

You might find yourself with very tempting job opportunities at a time when you thought you'd be withdrawing from the workforce.

Staying active and involved. Retaining employment after your previous job, even if it's just part-time, can be a great way to use the skills you've worked so hard to build over the years and keep up with friends and colleagues.

Enjoying yourself at work. Just because the government has set a retirement age with its Social Security program doesn't mean you have to schedule your own life that way. Many people genuinely enjoy their employment and continue working because their jobs enrich their lives.

Looking for a second opinion, speak to a Retirement Group Financial Advisor today

Schedule here

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For more resources